

**Minutes
Investment Advisory Council
August 18, 2015**

The Investment Advisory Council (IAC) met at 12:00 P.M. on Tuesday, August 18, 2015 in the Board Room – First Floor, 60 Empire Drive, St. Paul, Minnesota.

MEMBERS PRESENT: Jeff Bailey, Dave Bergstrom, Kerry Brick, Dave DeJonge, Dennis Duerst, Kim Faust, Kristin Hanson (for Myron Frans), Jay Kiedrowski, Gary Martin, Malcolm McDonald, and Elaine Voss.

MEMBERS ABSENT: Denise Anderson, John Bohan, Doug Gorence, and Laurie Hacking.

SBI STAFF: Mansco Perry, LeaAnn Stagg, Paul Anderson, Cassandra Boll, Nate Bluemenshine, Tammy Brusehaver, Stephanie Gleeson, Inma Conde Goldman, Aaron Griga, Ryan Hill, Andrew Krech, Mike Menssen, Mercy Ndungu, Jonathan Stacy, Robert Weiler, Charlene Olson, and Melissa Mader.

OTHERS ATTENDING: Ann Posey and Rod Bare, Callan Associates Inc.; Bert Black, Celeste Grant, Christie Eller, and Cumah Blake, Office of the Governor; Zachary Yzermans and April Lee, Office of the Legislative Auditor; Edgar Hernandez, SEIU; Rick Baert, Pensions and Investments; and Gordon Voss, private citizen.

The minutes of the May 19, 2015 meeting were approved.

Executive Director's Report

Executive Director Mansco Perry referred members to Tab A of the meeting materials, and he reported that the Combined Funds had outperformed its Composite Index over the ten year period ending June 30, 2015 (Combined Funds 7.8% vs. Composite 7.5 %) and had provided a real rate of return of 6.1% above inflation over the latest 20 year period (Combined Funds 8.4% vs. CPI 2.3%).

Mr. Perry said that assets decreased slightly over the quarter by 0.5% (Combined Funds ending value of \$60.1 versus a beginning value of \$60.4 billion), due to net outflows outweighing investment returns. The Combined Funds return was ten basis points (bps) above the benchmark for the quarter (Combined Funds 0.3% vs. Composite 0.2%) and 40 bps higher for the year (Combined Funds 4.4% vs. Composite 4.0%). The Combined Funds also outperformed for longer time periods.

Mr. Perry reported that the domestic stock manager group performed in-line with its target for the quarter (Domestic Stocks 0.1% vs. Domestic Equity Asset Class Target 0.1%) and outperformed for the year (Domestic Stocks 7.7% vs. Domestic Equity Asset Class Target 7.3%). He said the international stock manager group outperformed its target for the quarter (International Stocks 1.3% vs. International Equity Asset Class Target 0.5%) and for the year (International Stocks

-3.8% vs. International Equity Asset Class Target -5.3%). Mr. Perry then stated that the bond segment surpassed its target for the quarter (Bonds -1.5% vs. Fixed Income Asset Class Target -1.7%) and for the year (Bonds 2.1% vs. Fixed Income Asset Class Target 1.9%). He stated that alternative investments added to total performance for the quarter (3.7% for the quarter). Mr. Perry concluded his report noting that, as of June 30, 2015, the SBI was responsible for managing more than \$82 billion of assets.

Mr. Perry referred members to Tab B of the meeting materials for the administrative report. He reported that fiscal year to date, the SBI was running below budget. Mr. Perry then described the Conservation Easement Accounts, an item of legislation that passed which created three accounts to pool previous and future appropriations to cover the monitoring and enforcement costs associated with conservation easement efforts. The SBI is currently discussing the structure of the accounts with the Department of Natural Resources and the Board of Water and Soil Resources (BWSR). Mr. Perry also updated members Minnesota Achieving a Better Life Experience Act (ABLE). He noted that the SBI continues to work with the Department of Human Services on ABLE which also passed during the legislative session.

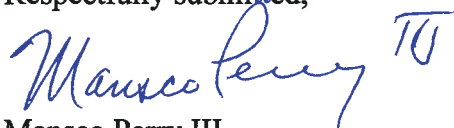
Mr. Perry stated that Sudan and Iran holdings updates were provided. Mr. Perry then stated there was currently no litigation involving the SBI.

Mr. Perry referred members to Tab D and introduced the three members of the Alternative Investments team who would be discussing the four proposed commitments. Prior to discussing the four recommendations, Mr. Blumenshine provided members with an update on the Alternatives portfolio. Mr. Krech, Mr. Stacy and Mr. Hill then described the three recommendations with existing partners in detail to IAC members and answered questions. Those deals were Warburg Pincus (Private Equity), Summit Partners (Private Equity), and Audax (Private Credit). A brief discussion followed each recommendation. Next, Mr. Krech, Mr. Stacy, and Mr. Hill described the three recommendations with new partners in detail to IAC members and answered questions. Those deals were Brookfield Capital Partners (Private Equity), Thomas H. Lee Partners (Private Equity), and TPG Partners (Private Equity). A brief discussion followed each recommendation. Mr. McDonald moved approval of the three recommendations and Ms. Voss seconded the motion. The motion passed.

Mr. Perry referred members to Tab D where he provided an overview of the Public Markets returns and managers. Mr. Perry discussed certain asset class sub-sets, how certain equity styles had performed, and commented on the overall strength of the managers in the total portfolio. A brief discussion followed where Mr. Perry described the current asset allocation of the Combined Funds and the pacing of Alternatives commitments.

The meeting adjourned at 1:54 p.m.

Respectfully submitted,



Mansco Perry III
Executive Director and
Chief Investment Officer